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Your submission for this review:
Our Submission is attached. Our Member Councils believe that their concerns were well covered in our submission to the Issues Paper (which was submitted by the Riverina JO). Consequently we have focused our Reponse to the Draft Report on what are the key matters for the REROC Members.

2022

Response to the IPART Rate Peg Methodology Review Draft Report

RIVERINA EASTERN REGIONAL ORGANISATION OF COUNCILS

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RIVERINA EASTERN REGIONAL ORGANISATION OF COUNCILS

RESPONSE TO THE RATE PEG METHODOLOGY REVEW DRAFT REPORT

Introduction

This submission is lodged on behalf of the Riverina Eastern Regional Organisation of Councils (REROC), our Members are the councils of Bland, Coolamon, Cootamundra-Gundagai, Greater Hume, Junee, Lockhart and Temora.

As with our previous submission (lodged under the Riverina JO), we wish to state again that our Members do not support the rate peg. Local Government is government at the grassroots, it is the government that is held to the highest accountability because of its daily front-facing interactions with its constituency. Councillors are held to account at the ballot box just as State and Federal politicians are, and we maintain that this is where councils should be held to account for the decisions made in relation to the rates they charge and the services and facilities they provide.

Our Members welcome IPART's decision to make the rate peg methodology more forward-looking and agile, while recognising the diversity of councils. We believe adopting council groupings is a positive step in calculating a rate peg that respects and recognises that communities across NSW are different and therefore demand different services from their local council.

Our Members support the draft decision to set a default rate of zero for the productivity factor. As much of the consultation for this Review showed, councils invest any "savings" that are made into the delivery of services to councils or in maintaining infrastructure. It is counter-productive to penalise councils for efficiency. In a world where councils are expected to do more with less it is far better to direct productivity gains into operational outcomes that benefit the community. Communities measure the productivity of their councils through the services and facilities they provide, IPART's approach to productivity gains should reflect this.

Our Members strongly support the establishment of a local Government reference group to advise on the implementation of the new rate peg. However, we would go further and suggest that the Reference Group be used by IPART to provide advice on other areas of IPART's operations where the determination or the decision to be delivered is likely to impact on local government operations.

Our Members support the proposal for the commissioning of an independent review of the financial model for councils in NSW including the broader issues raised in IPART's Report. However, our Members' support is predicated on the review being independent, undertaken in good faith and that Local Government has a genuine opportunity to inform the development of the Terms of Reference.

Our Members agree with the proposal to review the rate peg methodology every 5 years to ensure that it remains fit for purpose. We have welcomed the broad ranging consultation undertaken by IPART in relation to this review and the opportunity to provide genuine comments and feedback. A review every 5 years would ensure that the methodology reflects the needs of the sector and the community its serves.

We address draft decisions and recommendations below:

1. To replace the LGCI with Base Cost Change (BCC) model in 3 Components for 3 council groups

REROC strongly supports this draft decision to replace the LGCI with the BCC using three components: employee costs, asset costs and other operating costs. We agree that IPART should develop separate BCCs using three council groups: Metropolitan, Regional and Rural. Our Members welcome the recognition of the diversity of council operations that the groupings signify.

We agree with IPART's decision to use the Financial Data Return to weight the BCC's components to ensure that differences in the council groupings is incorporated into the BCC calculation.

Employee Costs
Our councils have considered the two main methods of determining employee costs and agree that they would prefer that IPART use the NSW Local Government Award wage increase rather than the RBA's Wage Price Index. While recognising IPART's concerns about how this could impact on wage negotiations, our Members believe the certainty of using the Award increase outweighs other considerations.

Our Members remain concerned, however, that the above methodology does not factor in the need for councils to "meet the market" in terms of recruitment. Skills shortages in Local Government are likely to worsen as highly experienced Baby Boomers retire. We are fighting for staff particularly against State Government agencies who, at least in our Region, often offer between $20,000 and $30,000 p.a. more than our councils. The labour drain from local government to the State, at least in regional areas is significant and while the proposed change to the Award as the benchmark will keep pace with wage increases it does not recognise the real cost of labour in a thin market.

We believe that this issue could be addressed in Operating Costs with an additional factor included for regional and rural councils to take into account the cost of attracting and retaining staff. Alternatively, it could be factored into the external costs' calculation, with a skills' shortage weighting provided for each of the council groupings.

Asset Costs
We agree with IPART that asset costs generally represent a larger proportion of total costs of rural and regional councils. We agree that the lag created by using the Producer Price Index (PPI) for road and bridging construction in NSW could be addressed by factoring the RAB's forecast CPI into the calculation to obtain a more forward-looking result.

Operating Costs
Our Members agree with the overall proposal to use the CPI forecast from the RBA's most recent Statement for Operating Costs. However, we do believe that IPART needs to make provision for issues such as spikes in the cost of energy or the need to offer above Award wages to fill staff positions. Issues such as these can result in rises far above the CPI and the BCC needs to recognise and accommodate these types of increases in operating costs.

There may also be a case to include an adjustment for remote councils in this component, where due to their remoteness operating costs are often higher than the CPI.

2. To include a separate adjustment factor that reflects the annual change in each council's Emergency Services Levy (ESL) contribution.

Our Members strongly support this proposal. REROC agrees with IPART that a separate adjustment factor that reflects the actual ESL cost to council will improve cost-reflectivity and the transparency of these costs for ratepayers. Most ratepayers do not understand that there is currently a trade-off between meeting the costs of the ESL and funding services and meeting obligations.

The higher visibility of the ESL will enable better scrutiny of the ESL cost and the levels of emergency services resources. It will ensure that the income raised through the rate peg is spent directly on council services and facilities and not redirected to funding a State agency over which councils have no influence or control.

IPART has noted the issues that councils face in relation to funding the depreciation of RFS Assets. Our Members request that IPART consider including the costs associated with depreciating RFS-controlled assets that are on council asset registers as part of the ESL costs.

Our councils regularly express concern that they have no control over how much the RFS expends on the assets it purchases for use in their LGA (and beyond) which must be listed on a council's asset register for depreciation. This can result in council assets being uplifted by over a million dollars in a single year simply as a result of the RFS deciding it requires a new shed. Currently in NSW it is estimated that $1.4 billion in assets are sitting on council asset registers, the Auditor General requires that councils depreciate them. We believe the current arrangements "hide" the true cost o emergency services because the depreciation is being carried solely by councils.

We believe that it would be a straightforward exercise to ring-fence these assets for depreciation purposes allowing councils to submit their asset lists and depreciation costs to IPART for inclusion in the ESL calculation. We believe that this would result in a genuine pass-through of direct emergency services costs.

As this is a pass-through arrangement our Members agree with the final rate peg being advised in May after the ESL contributions are determined.

3. Maintain IPART's current approach and make additional adjustments to the rate peg on an as needs basis for external costs.

Previous submissions from our Members have supported the development of adjustment factors for groups of councils that take into account specific external costs. Our Members agree with IPART adopting this approach to account for new activities such as Audit Risk and Improvement Committees, cybersecurity costs and new costs that result of the introduction of State or Federal legislation.

Local Government has regularly expressed its dismay at "cost-shifting" between the State and Local Government, we believe that adjustments for specific external costs can address this issue. We agree with IPART that in regional and rural areas councils often provide services as a last resort because the market is too thin to support provide providers. Where this occurs, there should be an adjustment made to recognise the increased burden on councils.

IPART needs to obtain sufficient information to make an informed decision on the impact of these external costs. We would support the development of a process whereby councils submit external cost claims that are appropriately validated and then IPART determines whether the costs impact on all councils or a specific group of councils. If this method is adopted then responsibility for "calling out" the costs rests with local government, while IPART has the oversight to determine the actual impact.

4. Change the Population Factor to deduct prison population from residential population in a council area.

REROC is unsure about the actual impact of the proposed decision on those councils that have a prison population. However, we do believe that prison populations generate significant visitors to an LGA who use and demand council services.

If prison populations are removed then perhaps increases in Operating Costs need to be raised for those councils or there needs to be an adjustment made for external costs.

The population factor only considers permanent population increases not temporary increases caused by holidaymakers, which can double the size of a population for months on end. There should be a mechanism within the rate peg methodology that recognises the increased demand on infrastructure and services created by tourists.

Conclusion

Our Members welcome the opportunity to provide this feedback on the proposed rate peg methodology. We thank IPART for the way that it has engaged with Local Government and listened to our concerns and as a consequence proposed genuine changes to the rate peg methodology that will make a difference to our financial viability.

We would welcome the opportunity to engage further with IPART as it moves forward to implementing the decisions and recommendations contained in the Draft Report.